

**REPORT OF THE AUDIT OF THE  
KNOTT COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**June 6, 2003**



**CRIT LUALLEN  
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**CRIT LUALLEN**  
**Auditor of Public Accounts**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Donnie Newsome, Knott County Judge/Executive

Honorable Ray Bolen, Knott County Sheriff

Members of the Knott County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Knott County Sheriff's Settlement - 2002 Taxes as of June 6, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Knott County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
KNOTT COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**June 6, 2003**

**ROSS & COMPANY, PLLC**  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**KNOTT COUNTY**  
**SHERIFF'S SETTLEMENT - 2002 TAXES**

**June 6, 2003**

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Knott County Sheriff as of June 6, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$1,238,624 for the districts for 2002 taxes, retaining commissions of \$50,964 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,178,431 to the districts for 2002 Taxes. Taxes of \$22 are due to the districts from the Sheriff and refunds of \$34 are due to the Sheriff from the taxing districts.

**Report Comment:**

- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.





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Independent Auditor's Report

We have audited the Knott County Sheriff's Settlement - 2002 Taxes as of June 6, 2003. This tax settlement is the responsibility of the Knott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Knott County Sheriff's taxes charged, credited, and paid as of June 6, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Donnie Newsome, Knott County Judge/Executive  
Honorable Ray Bolen, Knott County Sheriff  
Members of the Knott County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -  
December 2, 2003

KNOTT COUNTY  
RAY BOLEN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

June 6, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Charges Transferred to New Sheriff	\$ 81,765	\$ 45,968	\$ 267,628	\$ 155,441
Omitted Taxes	4,911	2,904	16,570	5,765
Franchise Corporation	6,556	3,608	21,777	
Additional Billings	24,716	14,830	87,472	29,230
Unmined Coal - 2002 Taxes	129,252	76,427	436,085	151,731
Oil and Gas Property Taxes	7,754	4,588	26,211	9,105
Penalties	4,807	2,744	15,860	7,671
Gross Chargeable to Sheriff	<u>\$ 259,761</u>	<u>\$ 151,069</u>	<u>\$ 871,603</u>	<u>\$ 358,943</u>
<u>Credits</u>				
Exonerations	\$ 4,389	\$ 2,620	\$ 15,290	\$ 5,175
Discounts	2,274	1,348	7,738	2,674
Delinquents:				
Real Estate	43,859	25,830	147,382	51,280
Tangible Personal Property	6,603	2,888	19,120	43,916
Intangible Personal Property				76
Omitted Bills	3,091	1,828	10,432	3,629
Additional Bills	207	124	734	245
Total Credits	<u>\$ 60,423</u>	<u>\$ 34,638</u>	<u>\$ 200,696</u>	<u>\$ 106,995</u>
Taxes Collected	\$ 199,338	\$ 116,431	\$ 670,907	\$ 251,948
Less: Commissions *	<u>8,472</u>	<u>4,948</u>	<u>26,836</u>	<u>10,708</u>
Taxes Due	\$ 190,866	\$ 111,483	\$ 644,071	\$ 241,240
Taxes Paid	189,331	110,595	665,898	239,441
Add: Commissions Refunded from School			26,834	
Refunds (Current and Prior Year)	<u>1,542</u>	<u>911</u>	<u>4,989</u>	<u>1,799</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (7)</u>	<u>\$ (23)</u>	<u>\$ 18</u>	<u>\$ 0</u>

\* and \*\* See Page 4.

The accompanying notes are an integral part of this financial statement.

KNOTT COUNTY  
RAY BOLEN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES  
June 6, 2003  
(Continued)

\* Commissions:

4.25% on	\$	567,717
4% on	\$	670,907

\*\* Special Taxing Districts:

Health District	\$	(13)
Extension District		(14)
Soil Conservation District		<u>4</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>(23)</u></u>
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The accompanying notes are an integral part of this financial statement.

KNOTT COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 6, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 6, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

KNOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 6, 2003  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 8, 2003 through June 6, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 28, 2003 through June 6, 2003.

Note 4. Interest Income

The Knott County Sheriff earned \$720 as interest income on 2002 taxes. As of December 2, 2003, the Sheriff is due \$3 in interest from the school district and owes \$3 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Knott County Sheriff collected \$28,376 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Fees

The Knott County Sheriff collected \$3,215 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office.



COMMENT AND RECOMMENDATION



KNOTT COUNTY  
RAY BOLEN, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of June 6, 2003

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. We recommend that the Sheriff implement compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and to the monthly tax reports; 2) having deposits compared to the receipts ledger and bank statements; and 3) comparing checks to monthly tax reports. The lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

*Sheriff's Response:*

*No Response.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Members of the Knott County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Knott County Sheriff's Settlement - 2002 Taxes as of June 6, 2003, and have issued our report thereon dated December 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Knott County Sheriff's Settlement - 2002 Taxes as of June 6, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

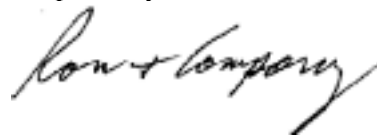
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
December 2, 2003



